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Report Highlights:
Chicken Prices on Rise in Northern Mexico*Legislators Will Reword Biosafety Law*Finance Secretary Warms of Economic Storm Clouds*Economy Has a Good Outlook Despite Bad News*Trade Pact With EU Means Meager Returns for Mexican Exporters

Includes PSD changes: No
Includes Trade Matrix: No
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Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

CHICKEN PRICES ON THE RISE IN NORTHERN MEXICO

El Norte, the leading newspaper for Northern Mexico, reported that prices for chicken leg quarters in Mexican border state markets have more than doubled in the last two weeks due to the AI import restrictions that the Mexican Secretariat of Agriculture (SAGARPA) imposed earlier this month on imports of U.S. poultry and poultry products. Specifically, retail prices for chicken legs and thigh meat have jumped from $6.00 (US$.60) pesos to $14.00 (US$1.40) pesos per kilo, because Mexican retailers are now having to buy more national product to fill orders that would normally be comprised of US product. (Source: *El Norte*, Monterrey, 6/25/02)

LEGISLATORS WILL REWORD BIOSAFETY LAW

The latest biosafety bill in the Mexican Congress will be revised entirely, using Brazil's biosafety law, which has been in effect for the past 17 years, as a model. The proposed Mexican biosafety law has caused controversy among the scientific, environmental, and agricultural communities, and has remained frozen in the Lower Chamber since April 2002. Reportedly, the Mexican proposed law was made without analyzing its implications and consequences and excluded the input of Mexican researchers. According to Heriberto Huicochea Vasquez, deputy of the PRD party, the proposed law has to be revised, due to its ethical and moral implications. The most recent initiative of the biosafety bill was sent to the Lower Chamber on April 25, 2002, by Alejandro Cruz Gutiérrez, a PRI member deputy. The lower house committees of Rural Development and Science and Technology have been tasked to analyze this initiative. However, about a week ago, congressmen of the Science and Technology committee traveled to Brazil in order to get a better sense as to how the Brazilian biosafety law works. "Brazil's law gives special importance to taboo topics," Huicochea Vasquez said, such as transgenic products and cloning. Both topics will be considered in the Mexican legislation but only after consulting Mexican scientists. The need to have such consultations is a change from just a few weeks ago, when the Mexican research community loudly complained of having been excluded from commenting on the latest version of the biosafety bill. The revision of the biosafety bill would encompass a thorough analysis of transgenic research and eventual cloning of plants and live beings. Huicochea stated that it is necessary that Mexican congressmen meet with President Vicente Fox and officials from the Ministry of Economy to ascertain the specific economic criteria upon which scientific research in Mexico will be based. This means that discussions on the biosafety bill may take place sometime in 2003, when a definitive schedule for scientific research will have been established. (Source: *El Universal*, 6/24/02)

FINANCE SECRETARY WARNS OF ECONOMIC STORM CLOUDS

After a week that saw the peso fall to its lowest levels in 18 months and breaking the psychological barrier of 10 pesos to the dollar, Finance Secretary Francisco Gil Diaz warned the economy is not immune to the ups and downs of international markets. "The sovereign risk rate went up somewhat...and it's mostly due to the prevailing regional anxiety," Gil Diaz said on Friday, June 21, 2002, at a conference on the energy sector. The Finance secretary denied the jitters in the Brazilian economy, dubbed the samba effect, could entirely contaminate Mexico, but he did say that some of its effects are being felt already. The country's risk premium jumped

from 227 points on April 10 to 327 points this week. Even so, Gil Diaz said this figure is still considerably lower than in other countries of the region. The secretary added that Mexico's public finances are in order and the country would not surpass the target budget deficit of 0.65 percent of the Gross Domestic Product. He said after a rough start of the year, in May and June Mexico registered a fiscal surplus. Meanwhile, President Vicente Fox said in his weekly radio program on Saturday June 22, that Mexico's economy is stable, citing that interest and inflation figures that are the lowest in years. "These two elements are fundamental to the stability of the economy," Fox said. (Source: *The News*, 6/24/02)

ECONOMY HAS A GOOD OUTLOOK DESPITE BAD NEWS

The nation's economy ended the first half of 2002 with a rough ride in financial markets. The peso's recent slide against the dollar, a drop in the local stock market (*Bolsa*) and higher interest rates made most investors pretty glum last week. Nevertheless, analysts still are upbeat about prospects for the second half of the year. The conclusion of many analysts at the end of the semester is Mexico is not immune to outside economic turbulence. This probably is truer than ever, at a time when the worst turbulence seems to be coming, not from Brazil and South America, but from the United States. Though the U.S. economic figures suggest a return to strong growth, investor confidence is being undermined by the accounting scandals at major U.S. corporations, which are hurting both the dollar and the peso. On June 29, 2002, however, it was reported that 30 private-sector consulting firms surveyed by Banco de Mexico during June foresee the nation's economy growing by 2.92 percent in the third quarter and 4.13 percent in the fourth quarter. Interest rates on 28-day *Cetes* are expected to end the year at 7.73 percent, while the peso will end 2002 at 9.80 to the dollar and will conclude 2003 at 10.18 to the dollar, they forecast. They expect consumption to grow two percent this year, while private-sector investment will jump by 2.65 percent. They also foresee annual inflation of 4.76 percent. One of the factors encouraging positive forecasts are good revenues from crude oil exports. Oil revenues were close to 19 dollars a barrel in the first semester and are expected to remain relatively stable

for the rest of the year. This is significantly better than the US$15.50 a barrel budgeted by the federal government for the full year and has created the expectation there will be some additional income from this source that will help make up for a shortfall in fiscal revenues from other sources. (Source: *The News*, 7/2/02)

TRADE PACT WITH EU PRODUCES MEANS MEAGER RETURNS FOR MEXICAN EXPORTERS

Two years after signing a trade agreement with the European Union (EU), Mexican exports to the EU have increased only marginally. In 1999, the year the pact went into effect, Mexico's trade deficit with the EU stood at US$7.54 billion. Eighteen months later the deficit had risen to US$10.832 billion with total exports up only slightly from US$5.202 billion in 1999 to US$5.332 billion in 2001. Imports from Europe, however, have increased significantly from US$12.742 billion to US$16.165 billion over the same period. Humberto Simonen, vice president of Mexico's National Association of Importers and Exporters, attributed the poor showing to domestic products' inability to compete in such a large and coveted market. "On one hand, Mexican products are not competitive because of freight costs and, on the other hand, Europeans seek higher quality products at lower prices," he said. The outgoing EU Ambassador to Mexico, Manuel Lopez Blanco, said if Mexican exporters do not reach US$30 billion in annual exports by 2005, the country will have failed to take advantage of the pact. "If Mexico does not manage to export, that's Mexico's failure, not the agreement's failure. It's a failure on the part of exporters, because the potential exists," Lopez Blanco said in statements to the press. Countries without free trade agreements with the EU, such as Brazil and India, export more than US$30 billion in goods and services to the region, he added. The EU is Mexico's second-largest trading partner and investor. (Source: *The News*, 7/2/02)

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